

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Capital Area Transportation Authority	County Ingham
Audit Date 9/30/04	Opinion Date 12/22/04	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

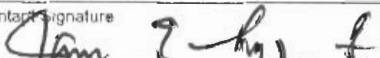
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Maner, Costerisan, and Ellis, P.C.			
Street Address 544 Cherboung Drive, Suite 200	City Lansing	State MI	ZIP 48917
Accountant Signature 		Date 2/14/05	

CAPITAL AREA TRANSPORTATION AUTHORITY
REPORT ON FINANCIAL STATEMENTS
(with supplementary, additional and compliance information)
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

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INDEPENDENT AUDITORS' REPORT

Capital Area Transportation Authority
Lansing, Michigan

December 22, 2004

We have audited the accompanying financial statements of the business-type activities of the Capital Area Transportation Authority as of and for the years ended September 30, 2004 and 2003, and the Pension Trust Fund as of and for the year ended December 31, 2003 which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Area Transportation Authority's business-type activities as of September 30, 2004 and 2003 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, and the financial position of the Pension Trust Fund as of December 31, 2003 and changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

December 22, 2004

In accordance with *Government Auditing Standards*, we have issued a report dated December 22, 2004 on our consideration of Capital Area Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages vi through x and pension funding information on pages 21 through 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Capital Area Transportation Authority's basic financial statements. The additional information on pages 25 through 30 is presented for purpose of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costanza & Ellis P.C.

Certified Public Accountants

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the year ending September 30, 2004

The Management Discussion and Analysis (“MD&A”) presents a narrative overview and analysis of the financial activities of the Capital Area Transportation Authority (Authority) for the year ended September 30, 2004. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements as a whole.

FINANCIAL HIGHLIGHTS

The stability of the Authority’s financial status was assisted as a result of the passing of a 2.22 milage in 2004, combining the two already existing levies. The Authority experienced an increase in net assets of \$2.4 million, an increase of 6.8% over 2003, assisted by significant capital contributions from the Federal and State governments.

Overall revenues, including capital contributions, decreased from \$38.3 million in 2003 to \$35.4 million in 2004, a 7.8% decrease. The decrease was primarily the result of a \$3.1 reduction in capital expenditures and related revenue.

- Operating revenues decreased \$142,000 or 2.7%.
- Non-operating revenues increased \$307,000 or 1.2%.
- Capital contributions decreased \$3,093,000 or 38.1%
- Operating expenses increased \$1,957,000 or 6.3%

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management’s discussion and analysis (this section), the basic financial statements, required supplemental information and compliance and additional information.

The basic financial statements include two kinds of statements:

- The enterprise fund statements indicate how basic transportation services were financed in the short-term and what remains for future spending, these are accounted for as an enterprise fund.
- The second statement is the Pension Trust Fund, which is a fiduciary fund. These statements provide information about the financial relationship in which the Authority acts as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the more significant information contained within the statements and provide more detailed data. The notes are followed by a series of required supplemental information that further explains and supports the financial statements. The compliance information provides data relating to the basic transportation services provided.

ENTERPRISE FUND STATEMENTS

The enterprise fund statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The balance sheets include all of the Authority's assets and liabilities. The statements of revenues, expenses and changes in net assets accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The net assets of the proprietary funds are reported in the balance sheets. Net assets – the difference between the Authority's assets and liabilities – are one way to measure the Authority's financial health or position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial position is improving or deteriorating. To assess the overall health of the Authority, you must also consider additional factors such as changes in the Authority's tax base, the condition of its rolling stock and facilities and changes in Federal and State programs.

FIDUCIARY FUND STATEMENTS

The Authority administers pension plans which cover substantially all union and administrative employees. The Authority is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These activities are excluded from the proprietary fund financial statements because the Authority cannot use these assets to finance its operations.

NET ASSETS

The Authority's total net assets at September 30, 2004 were \$38.2 million, an increase of approximately \$2.4 million or 6.8%. Total assets increased \$2.0 million or 4.2% and total liabilities decreased \$.4 million or 3.1%.

CAPITAL AREA TRANSPORTATION AUTHORITY

NET ASSETS

(in thousands of dollars)

	As of September 30,		
	2004	2003	% Change
ASSETS:			
Current assets	\$ 13,780	\$ 11,743	17.30%
Capital assets	36,560	36,555	0.01%
TOTAL ASSETS	<u>\$ 50,340</u>	<u>\$ 48,298</u>	<u>4.20%</u>
LIABILITIES:			
Current liabilities	4,553	4,027	13.10%
Long-term debt	6,610	7,673	-13.90%
Other long-term liabilities	991	846	17.10%
TOTAL LIABILITIES	<u>12,154</u>	<u>12,546</u>	<u>-3.10%</u>
NET ASSETS:			
Invested in capital assets, net of related debt	29,139	28,027	4.00%
Unrestricted net assets	<u>9,047</u>	<u>7,725</u>	<u>17.10%</u>
TOTAL NET ASSETS	<u>\$ 38,186</u>	<u>\$ 35,752</u>	<u>6.80%</u>

CHANGES IN NET ASSETS

The increase in net assets in 2004 was \$2.4 million, compared to the \$7.3 million increase in 2003. (See table below.)

CAPITAL AREA TRANSPORTATION AUTHORITY CHANGES IN NET ASSETS (in thousands of dollars)

	Year ended September 30,		
	2004	2003	% Change
OPERATING REVENUE:			
Passenger fares	\$ 3,059	\$ 3,230	-5.30%
Other	2,165	2,137	1.30%
TOTAL OPERATING REVENUE	5,224	5,367	-2.70%
OPERATING EXPENSES:			
Total operating expenses			
before depreciation	28,921	27,354	5.70%
Depreciation	4,025	3,635	10.70%
TOTAL OPERATING EXPENSES	32,946	30,989	-3.10%
OPERATING LOSS	(27,722)	(25,622)	8.20%
NON-OPERATING REVENUES			
Tax revenue	10,948	10,626	3.00%
Government operating grants	13,813	13,838	-0.20%
Other	375	364	3.00%
TOTAL NON-OPERATING REVENUES	\$ 25,136	\$ 24,828	6.80%
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(2,586)	(794)	225.70%
CAPITAL CONTRIBUTIONS	5,020	8,113	-38.10%
CHANGE IN NET ASSETS	2,434	7,319	66.70%
Total net assets, beginning of year	35,752	28,433	25.70%
Total net assets, end of year	\$ 38,186	\$ 35,752	6.80%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

During the 2004 and 2003 fiscal years, the Authority had invested \$5.0 million and \$8.1 million, respectively in capital assets from capital grants, including:

	<u>2004</u>	<u>2003</u>
Land	\$ (196,543)	
Building renovations	2,777,809	380,446
Revenue vehicles	1,902,743	6,795,091
Furniture and fixtures	222,499	343,423
Bus shelters	42,035	26,442
Equipment	<u>271,208</u>	<u>567,289</u>
Total	<u>\$ 5,019,751</u>	<u>\$ 8,112,691</u>

Capital Area Transportation Authority capital assets (net of depreciation)

	<u>2004</u>	<u>2003</u>
Land	\$ 1,821,363	\$ 2,017,906
Building renovations	14,566,024	12,478,256
Revenue vehicles	18,349,863	20,366,562
Furniture and fixtures	654,793	579,633
Bus shelters	172,963	152,081
Equipment	<u>994,729</u>	<u>961,078</u>
Total	<u>\$ 36,559,735</u>	<u>\$ 36,555,516</u>

More detailed information about capital assets can be found in Note 5 to the financial statements.

Long-term debt

At year end, the Authority had \$6.6 million in long term debt, a reduction of 13.9% from last year. More detailed information about the Authority's long term liabilities can be found in Note 6 to the financial statements.

FACTORS BEARING ON THE AUTHORITY'S FUTURE

At the time these financial statements were prepared and audited, the Authority was aware of one existing circumstance that could significantly affect its financial health in the future. For the fiscal year 2004, the Authority received approximately 30% of its funds used for operations from the State of Michigan. This funding was based on the Authority receiving 35.21% of its eligible operating expenses for urban service and 42.24% of its eligible operating expenses for non-urban service from the State compared to 36.67% and 44.79% respectively in fiscal year 2003. Effective October 1, 2004, the rates of reimbursement were decreased to 32.43% and 38.43% respectively. While the total reimbursement from the State of Michigan in 2005 will likely be similar to that received in 2004, it is estimated that the Authority will receive approximately \$750,000 less than it would have under the previous rate structure. It is possible that budget constraints within the state could result in further reduction of this funding formula.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, taxpayers and other interested parties with a general overview of the finances of the Capital Area Transportation Authority and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Capital Area Transportation Authority at 4615 Tranter Ave., Lansing, MI 48910.

**CAPITAL AREA TRANSPORTATION AUTHORITY
BALANCE SHEETS - ENTERPRISE FUND
SEPTEMBER 30, 2004 AND 2003**

ASSETS	<u>2004</u>	<u>2003</u>
CURRENT ASSETS:		
Cash	\$ 486,199	\$ 324,091
Investments	8,859,277	6,460,848
Accounts receivable	251,958	357,050
Due from federal government	754,891	620,535
Due from state government	1,538,503	1,316,889
Due from local governmental units	255,500	962,285
Single business taxes receivable	172,175	214,847
Property tax receivable	90,893	151,426
Inventories	918,340	919,824
Prepaid expenses	<u>452,551</u>	<u>414,723</u>
TOTAL CURRENT ASSETS	13,780,287	11,742,518
CAPITAL ASSETS, less accumulated depreciation	<u>36,559,735</u>	<u>36,555,516</u>
	<u><u>\$ 50,340,022</u></u>	<u><u>\$ 48,298,034</u></u>

See notes to financial statements.

	2004	2003
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,776,046	\$ 1,284,074
Current portion of long-term debt		43,985
Current portion of capital lease obligation	623,474	586,909
Accrued payroll:		
Regular	181,044	318,640
Vacation, incentive and sick pay	784,258	719,327
Accrued pension	387,289	313,291
Accrued interest	187,759	224,534
Other current liabilities	291,029	242,699
Reserve for workers' compensation claims	73,857	76,376
Reserve for health insurance costs	247,791	216,437
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TOTAL CURRENT LIABILITIES	4,552,547	4,026,272
LONG-TERM LIABILITIES:		
Long-term debt, less current portion		439,852
Capital lease obligations	6,609,617	7,233,091
Accrued insurance	884,098	749,500
Accrued severance pay	107,854	97,150
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TOTAL LIABILITIES	12,154,116	12,545,865
NET ASSETS:		
Invested in capital assets, net of related debt	29,138,885	28,027,145
Unrestricted	9,047,021	7,725,024
	<hr/>	<hr/>
TOTAL NET ASSETS	38,185,906	35,752,169
	<hr/>	<hr/>
	\$ 50,340,022	\$ 48,298,034
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**CAPITAL AREA TRANSPORTATION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - ENTERPRISE FUND
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	2004	2003
OPERATING REVENUES:		
Linehaul (farebox)	\$ 2,442,802	\$ 2,588,931
MSU extra services	1,344,715	1,352,373
Spectran (farebox including car/wagon service)	550,966	550,186
CATA rural service (farebox)	57,149	83,086
Senior/handicapper shopping bus (farebox)	7,619	7,374
Charter		2,469
Meridian Redi-Ride	226,890	193,359
Special services	482,071	441,257
Other revenues	112,218	147,748
Total operating revenues	<u>5,224,430</u>	<u>5,366,783</u>
OPERATING EXPENSES:		
Labor and fringe benefits	19,399,581	17,532,205
Depreciation	4,024,934	3,634,943
Purchased transportation services	2,883,482	3,243,176
Services	1,342,462	1,217,691
Materials, fuel and supplies	2,278,248	2,199,961
Utilities	362,410	321,511
Insurance and self-insured costs	1,580,205	1,774,855
Advertising	351,684	292,705
Interest	487,130	544,833
Other miscellaneous expenses	211,509	216,728
Leases and rentals	24,408	10,252
Total operating expenses	<u>32,946,053</u>	<u>30,988,860</u>
Loss from operations	<u>(27,721,623)</u>	<u>(25,622,077)</u>
NON-OPERATING REVENUES:		
Tax revenue:		
Property tax	10,837,462	10,516,108
Single business tax inventory reimbursement	109,970	110,079
Government operating grants:		
Federal	1,006,400	998,364
State	10,011,699	10,332,476
Local	2,450,000	2,321,648
Planning and technical study grants	345,082	185,853
Investment income	69,330	39,676
Other non-operating revenue	305,666	324,639
Total non-operating revenues	<u>25,135,609</u>	<u>24,828,843</u>
Net loss before capital contributions	<u>(2,586,014)</u>	<u>(793,234)</u>
CAPITAL CONTRIBUTIONS - grants	<u>5,019,751</u>	<u>8,112,691</u>
Increase in net assets	2,433,737	7,319,457
NET ASSETS, beginning of year	<u>35,752,169</u>	<u>28,432,712</u>
NET ASSETS, end of year	<u>\$ 38,185,906</u>	<u>\$ 35,752,169</u>

See notes to financial statements.

CAPITAL AREA TRANSPORTATION AUTHORITY
STATEMENTS OF CASH FLOWS - ENTERPRISE FUND
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004	2003
Cash flows from operating activities:		
Receipts from operations	\$ 5,336,142	\$ 5,554,284
Payments to suppliers	(8,882,982)	(9,220,676)
Payments to employees	(19,395,484)	(17,289,051)
Net cash used by operating activities	(22,942,324)	(20,955,443)
Cash flows from non-capital financing activities:		
Local non-operating revenues	14,513,088	12,693,452
State of Michigan grants	9,843,519	10,971,467
Federal operating grants	1,163,692	1,452,983
Net cash provided by non-capital financing activities	25,520,299	25,117,902
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,225,696)	(7,556,528)
Proceeds from sale of capital assets	196,543	
Capital contributed by governmental units	5,019,751	8,112,691
Repayment of capital lease obligation	(586,909)	(552,489)
Payments on notes payable	(483,837)	(43,985)
Net cash used by capital activities	(80,148)	(40,311)
Cash flows from investing activities:		
(Purchases) sales of investments - net	(2,398,429)	(4,440,122)
Investment income	62,710	39,473
Net cash used by investing activities	(2,335,719)	(4,400,649)
NET INCREASE (DECREASE) IN CASH	162,108	(278,501)
CASH, at beginning of year	324,091	602,592
CASH, at end of year	\$ 486,199	\$ 324,091
Reconciliation of loss from operations to net cash used by operating activities:		
Operating loss	\$(27,721,623)	\$(25,622,077)
Depreciation	4,024,934	3,634,943
Receivables	111,712	187,501
Inventories	1,484	(13,126)
Prepaid expenses	(37,828)	(86,929)
Accounts payable	626,570	625,096
Accruals	(24,738)	76,401
Other current liabilities	48,330	75,995
Reserve for workers' compensation claims	(2,519)	68,189
Reserve for health insurance costs	31,354	98,564
Net cash used by operating activities	\$(22,942,324)	\$(20,955,443)

See notes to financial statements.

**CAPITAL AREA TRANSPORTATION AUTHORITY
PENSION TRUST FUND
COMBINED STATEMENT OF FIDUCIARY NET ASSETS
AS OF DECEMBER 31, 2003
(fiscal year end of Pension Trust Fund)**

	<u>Union plan</u>	<u>Administrative plan</u>	<u>Total</u>
Assets:			
Investments in unallocated insurance contracts	<u>\$ 11,854,674</u>	<u>\$ 8,104,150</u>	<u>\$ 19,958,824</u>
Net assets held in trust for pension benefits	<u>\$ 11,854,674</u>	<u>\$ 8,104,150</u>	<u>\$ 19,958,824</u>

**CAPITAL AREA TRANSPORTATION AUTHORITY
PENSION TRUST FUND
COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2003
(fiscal year end of Pension Trust Fund)**

	<u>Union plan</u>	<u>Administrative plan</u>	<u>Total</u>
ADDITIONS:			
Contributions:			
Employer	\$ 532,506	\$ 112,868	\$ 645,374
Plan members	<u>532,506</u>	<u>389,922</u>	<u>922,428</u>
Total contributions	1,065,012	502,790	1,567,802
Investment income:			
Contract investment income	596,432	417,489	1,013,921
Net appreciation in investments	<u>25,143</u>	<u>21,413</u>	<u>46,556</u>
Total additions	<u>1,686,587</u>	<u>941,692</u>	<u>2,628,279</u>
DEDUCTIONS:			
Benefit payments	565,153	176,505	741,658
Administrative expenses	<u>27,378</u>	<u>18,810</u>	<u>46,188</u>
Total deductions	<u>592,531</u>	<u>195,315</u>	<u>787,846</u>
INCREASE IN NET ASSETS	1,094,056	746,377	1,840,433
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:			
Beginning of year	<u>10,760,618</u>	<u>7,357,773</u>	<u>18,118,391</u>
End of year	<u><u>\$ 11,854,674</u></u>	<u><u>\$ 8,104,150</u></u>	<u><u>\$ 19,958,824</u></u>

CAPITAL AREA TRANSPORTATION AUTHORITY NOTES TO FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The Capital Area Transportation Authority (CATA) is a public body organized as a legal entity pursuant to the Mass Transportation System Authorities Act, Public Act 55 of 1963. The Authority has the capability and authority to provide public transportation to the general public in the greater Lansing area. Its member municipalities include the cities of Lansing and East Lansing and the townships of Delhi, Delta, Lansing and Meridian. The Authority is also authorized by the Act to operate within certain service boundaries which include the counties of Ingham, Eaton and Clinton. The Authority has contracted with the County of Ingham to administer and manage transportation services to that area in the county not included in the municipalities listed above.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board Statements No. 14 and 39. This criteria includes oversight responsibility, accountability for fiscal matters, scope of public services and special financing relationships. On this basis, the Authority's financial statements are stated independently of the governmental units referred to in the preceding paragraph.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governments. The following note summarizes the more significant policies.

a. Enterprise Fund Accounting

The Authority is accounted for as an enterprise fund. The enterprise fund is used to account for operations a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or b) where the governing body has decided periodic determination of revenues and expenses and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

All enterprise funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported net assets is segregated into invested in capital assets, net of related debt, and unrestricted components. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Pension Trust Fund - The plan's policy is to prepare its financial statements on the accrual basis of accounting. The plan has a December 31 year end.

CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Enterprise funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and, their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

c. Cash and investments

Cash includes amounts in demand deposits.

The Authority reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Authority intends to hold the investment until maturity.

State statutes authorize the Authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Authority is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- d. Fiduciary Trust Fund - The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at a contract rate less funds used to pay benefits or administrative expenses charged.
- e. Operating revenues – CATA's operating revenues are tied to its primary purpose of providing public transportation to the general public in the greater Lansing area. Grants received to help finance operations are classified as non-operating revenues in accordance with GASB 34.
- f. Grants

CATA receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to fund CATA's day-to-day operations and to meet normal expenses of those operations.
- g. Allowance for Doubtful Accounts

No allowance for doubtful accounts was considered necessary based upon the favorable collection history and a current analysis of receivables of the Authority.
- h. Inventories

Inventories of replacement parts and fuel are valued at lower of cost (first-in, first-out) or market. Office supplies are not inventoried.
- i. Capital Assets and Depreciation

Capital assets are stated at cost or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Provisions for depreciation of fixed assets are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives.

The Authority's capitalization policy is to capitalize assets with a life greater than two years and whose costs exceed \$1,000.

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

i. Capital Assets and Depreciation (Concluded)

The following lives are being used to depreciate property and equipment:

Buildings	10 - 30 years
Revenue vehicles	4 - 12 years
Other equipment	3 - 10 years

j. Property Taxes

Property taxes levied by the Authority are collected by various municipalities and periodically remitted to the Authority. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. After February 14, the bills become delinquent and penalties and interest may be assessed by the collecting entity. Property tax revenues are recognized when levied.

Property taxes uncollected after one year are written off. For the years ended September 30, 2004 and 2003, the Authority levied 2.1878 and 2.2031, respectively, per \$1,000 of assessed valuation.

k. Compensated Absences

Vacation, incentive and sick pay are recorded as an expenditure at the time the benefit is earned by the employee taking into consideration maximum contractual amounts.

l. Severance Pay

The Authority has a provision for a benefit to be paid to employees who had salaried and/or administrative status on May 1, 1990 and who retire at age 55 or older with at least ten years of continuous service prior to retirement. Employees meeting these requirements, are entitled to 90 calendar days (12 weeks) of pay. An accrual for estimated future payouts has been recorded in long-term liabilities.

m. Estimates

The process of preparing financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CASH AND INVESTMENTS

Deposits

At September 30, 2004, the carrying amount of the Authority's deposits was \$1,066,646 and the bank balance was \$2,016,883. The difference between the carrying amount and the bank balance consists primarily of \$950,237 of outstanding deposits. Of the bank balance, \$827,599 was covered by federal depository insurance and the remaining \$1,189,284 was uninsured and uncollateralized.

At September 30, 2003, the carrying amount of the Authority's deposits was \$312,404 and the bank balance was \$439,665. The difference between the carrying amount and the bank balance consists primarily of \$127,261 of outstanding checks. Of the bank balance, \$324,243 was covered by federal depository insurance and the remaining \$121,422 was uninsured and uncollateralized.

The Authority includes certificates of deposit as investments on the balance sheet but they are included as deposits above.

	September 30,	
	2004	2003
Deposits noted above	\$ 1,066,646	\$ 312,404
Certificates of deposits included as investments on the balance sheet	(600,000)	(13)
Workers compensation reserves	9,000	6,000
Petty cash and coin on hand	10,553	5,700
Cash on the balance sheet	<u>\$ 486,199</u>	<u>\$ 324,091</u>

Investments

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Authority or the Authority's agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered, with securities held by the counter party's trust department or its agent in the Authority's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counter party, or by its trust department or its agent but not in the Authority's name.

	Category			
September 30, 2004	1	2	3	Carrying amount
Investments in pooled investment funds	<u>\$</u>	<u>\$ 8,259,277</u>	<u>\$</u>	<u>\$ 8,259,277</u>
Total investments				<u>\$ 8,259,277</u>
<u>Fiduciary Fund</u>				
Investments in unallocated insurance contracts			<u>\$ 19,985,824</u>	<u>\$ 19,985,824</u>

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CASH AND INVESTMENTS (Concluded)

September 30, 2003	Category			Carrying amount
	1	2	3	
Investments in pooled investment funds	\$	\$6,460,848	\$	\$ 6,460,848
Fiduciary Fund				
Investments in unallocated insurance contracts			\$18,118,391	\$ 18,118,391

The Authority is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments which potentially subject the Authority to concentrations of credit risk consist principally of cash and investments.

The Authority deposits its cash and temporary cash investments with high-credit-quality financial institutions. Although such cash balances may exceed the federally insured limits at certain times during the year, they are, in the opinion of management, subject to minimal risk.

The Authority's investments in debt securities, which typically mature in one year or less, are held to maturity and valued at amortized cost, which approximates fair value.

NOTE 4 - INVENTORIES

Inventories are summarized as follows:

	September 30, 2004	2003
Bus parts	\$ 875,281	\$ 899,680
Fuel	34,999	8,210
Lubricants and other	8,060	11,934
	\$ 918,340	\$ 919,824

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – CAPITAL ASSETS

Major classes of capital assets at September 30, consist of the following:

	Balance October 1, 2003	Additions	Deletions	Balance September 30, 2004
Capital assets not being depreciated:				
Land	\$ 2,017,906	\$	\$ 196,543	\$ 1,821,363
Capital assets being depreciated:				
Buildings	18,588,652	2,780,640		21,369,292
Revenue vehicles	41,320,688	860,744		42,181,432
Furniture, fixtures and computers	2,372,586	266,305		2,638,891
Bus shelters	712,554	42,035		754,589
Equipment	3,179,238	275,971		3,455,209
	<u>68,191,624</u>	<u>4,225,695</u>	<u>196,543</u>	<u>72,220,776</u>
Total assets				
Accumulated depreciation:				
Buildings	6,110,396	692,872		6,803,268
Revenue vehicles	20,954,126	2,877,443		23,831,569
Furniture, fixtures and computers	1,792,953	191,145		1,984,098
Bus shelters and signs	560,473	21,153		581,626
Equipment	2,218,160	242,320		2,460,480
	<u>31,636,108</u>	<u>4,024,933</u>	<u></u>	<u>35,661,041</u>
Total accumulated depreciation				
Net capital assets	<u>\$ 36,555,516</u>	<u>\$ 200,762</u>	<u>\$ 196,543</u>	<u>\$ 36,559,735</u>

Assets purchased under capital lease have been capitalized in the year they were received, but each year's lease payments are financed through capital grants. During 2004 and 2003, \$602,145 and \$566,831, respectively, were paid as capital leases.

During 2004 and 2003, \$51,400 and \$10,668, respectively of capital asset purchases were purchased with Capital Area Transportation Authority funds, with the remainder primarily funded with capital grants.

CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – CAPITAL ASSETS (Concluded)

If capital assets purchased with governmental funds is withdrawn from mass transportation service, the Authority must remit to the government its proportionate share of the fair market value.

Depreciation expense for the year ended September 30, 2004 and 2003 was \$4,024,934 and \$3,634,943, respectively.

NOTE 6 – NOTE PAYABLE

Note payable at September 30 is as follows:

	2004	2003
Note payable - Capital National Bank, principal payable in annual installments of \$43,985 plus interest at 4.79%, final maturity in November 2014, unsecured.	\$	\$ 483,837
Less current portion		43,985
	\$	\$ 439,852
The note was repaid in 2004.		

NOTE 7 – CAPITAL LEASE PAYABLE

	September	
	2004	2003
Obligation under capital lease - GE Capital Public Finance, payable in annual installments of \$1,074,095 including interest at 6.23%, final maturity in May 2013, secured by equipment.	\$ 7,233,091	\$ 7,820,000
Less current portion	623,474	586,909
	<u>\$ 6,609,617</u>	<u>\$ 7,233,091</u>

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 – CAPITAL LEASE PAYABLE (Concluded)

\$8,972,974 is included in property and equipment under revenue vehicles.

Minimum future lease payments under capital lease as of September 30, 2004 are as follows:

Year ending September 30,	
2005	\$ 1,074,095
2006	1,074,095
2007	1,074,095
2008	1,074,095
2009	1,074,095
2010 - 2014	<u>4,296,383</u>
Total minimum lease payments	9,666,858
Less amount representing interest	<u>2,433,767</u>
Present value of net minimum lease payment	<u><u>\$ 7,233,091</u></u>

NOTE 8 - COST ALLOCATION PLAN

The Authority has a cost allocation plan for all allocated expenses. The allocation plan was approved by the Michigan Department of Transportation, Bureau of Urban and Public Transportation, Bus Transit Division. The plan has been adhered to in the preparation of the financial statements.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to assets; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Authority has established a limited risk management program for workers' compensation. An excess coverage insurance policy covers individual claims in excess of \$300,000, aggregate claims in excess of \$500,000 and maximum insurance of \$5,000,000.

Further, the Authority has established a limited risk management program for health and related benefits such as vision and dental. An excess coverage insurance policy covers individual claims per policy period in excess of \$50,000, aggregate claims in excess of \$1,000,000, and maximum insurance coverage of \$1,000,000 per individual.

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - RISK MANAGEMENT (Concluded)

The following summarizes the claims liability as of September 30:

	<u>Workers'</u> <u>Compensation</u>	<u>Health, vision</u> <u>and dental</u>
<u>2004</u>		
Beginning of year liability	\$ 76,376	\$ 216,437
Current year claims and changes in estimates	92,632	2,988,457
Claims payments	<u>(95,151)</u>	<u>(2,957,103)</u>
End of year liability	<u>\$ 73,857</u>	<u>\$ 247,791</u>
	<u>Workers'</u> <u>Compensation</u>	<u>Health, vision</u> <u>and dental</u>
<u>2003</u>		
Beginning of year liability	\$ 8,187	\$ 117,873
Current year claims and changes in estimates	115,678	2,655,767
Claims payments	<u>(47,489)</u>	<u>(2,557,203)</u>
End of year liability	<u>\$ 76,376</u>	<u>\$ 216,437</u>

The Authority's method for estimating liabilities for unpaid claims is done on a historical basis. These liabilities include an estimate of claims that have been incurred but not reported.

The Capital Area Transportation Authority is also a member of the Michigan Transit Pool Liability Trust Fund. This pool provides property and casualty insurance to member transportation authorities. Pool members may be subject to supplemental assessments in the event of deficiencies. The Authority has purchased additional insurance coverage in the amount of \$10,000,000 for excess liability. During the period ending September 30, 2004 and 2003 the Authority paid \$741,236 and \$631,927 in premiums to the pool. These premiums are accrued based on the ultimate cost of the expense to date. Premium expense for 2004 and 2003 was \$725,536 and \$587,952. Prepaid premiums at year end amounted to \$122,623 for 2004 and \$106,923 for 2003. The above premium expenses include a retrospective rate increase of \$576,647 and \$905,511 reported as a payable at September 30, 2004 and 2003, respectively.

The Authority purchases commercial insurance to cover other risks of loss.

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - DEFINED BENEFIT PENSION PLAN COVERING UNION EMPLOYEES

a. Plan Description

The Authority has a single-employer defined benefit pension plan covering substantially all union employees with at least 90 days and 1,000 hours of service. The Authority's payroll for the year ended September 30, 2004 was approximately \$13,600,000 of which \$12,000,000 was for the employees covered by the plan.

Benefits are 100% vested after 10 years of service. Authority employees who retire at or after age 59 are entitled to a monthly benefit equal to years of accrued service multiplied by \$59.25 for retirements through August 1, 2003 and \$60.65 for retirements after August 1, 2003. Early retirement is available on or after age 55 at a reduced monthly benefit. The plan also provides disability, single sum death and survivor annuity death benefits. These benefit provisions and all other requirements are established by the Authority under the Capital Area Transportation Authority Retirement Plan (#001).

b. Funding Policy

Each active participant is required to contribute \$56 per week to the plan. The Authority makes a matching contribution of \$56 per week per active participant (the aggregate annual contribution must meet or exceed the minimum funding standards of ERISA).

c. Annual Pension Cost

The Authority's pension cost under the plan for fiscal year ending September 30, 2004 was \$536,086. The required contribution was determined as part of the January 1, 2004 actuarial valuation using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation include a) a rate of return on the investment of present and future assets of 6.75% compounded annually, b) mortality established with the 1983 Group Annuity Table (male) with projection, set back 6 years for females, c) expenses deducted from the fund according to expense scales in the service agreement, d) 14.88% withdrawal rate at age 20 graded down to 0% at age 55, e) normal retirement age of 59 upon completion of 10 years of service, f) asset values used are the actuarial adjusted values and, g) no post-retirement benefit increases.

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - DEFINED BENEFIT PENSION PLAN COVERING UNION EMPLOYEES
(Continued)**

c. Trend Information

<u>Year ending December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 434,192	100%	\$
2002	481,997	100%	
2003	509,394	100%	

Required supplementary information is disclosed on pages 20 and 21.

e. Plan Membership

As of January 1, 2004 and 2003, the plan membership consisted of:

	<u>2004</u>	<u>2003</u>
Active employees	184	176
Retirees and beneficiaries currently receiving benefits	63	63
Terminated employees entitled to benefits but not yet receiving them	<u>21</u>	<u>15</u>
Total	<u><u>268</u></u>	<u><u>254</u></u>

f. Investments that represent 5% or more of net assets available for benefits:

Principal Financial Group	<u><u>\$ 6,950,751</u></u>
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**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 - RETIRED BENEFIT PENSION PLAN COVERING ADMINISTRATIVE
EMPLOYEES**

a. Plan Description

The Authority has a single-employer defined benefit pension plan covering substantially all administrative employees with at least six months of service. The Authority's payroll for the year ended September 30, 2003 was approximately \$13,600,000 of which \$1,600,000 was for employees covered by the plan.

Benefits are 100% vested after 10 years of service. Authority employees who retire at or after age 59 are entitled to a monthly benefit equal to 70% of the average compensation multiplied by the accrued benefit adjustment and the short service percentage.

Early retirement is available on or after age 55 at a reduced monthly benefit. The plan also provides disability, single sum death and survivor annuity death benefits. These benefits provisions and all other requirements are established by the Authority's under the Capital Area Transportation Authority Retirement Plan (#002).

b. Funding Policy

The active participants are required to contribute 5% of their compensation paid per month. The Authority is required to contribute the remaining amounts necessary to fund the plan using an actuarial basis specified by statute (the aggregate annual contribution must meet or exceed the minimum funding requirements of ERISA).

c. Annual Pension Cost

The Authority's pension cost for fiscal year ending September 30, 2004 was \$491,719. The required contribution was determined as part of the January 1, 2004 actuarial valuation using the entry age normal actuarial cost method.

Significant actuarial assumptions used in the valuation include: a) a rate of return on the investment of present and future assets of 6.75% a year compounded annually, b) mortality established with 1983 Group Annuity Table (male) with projection, set back 6 years for females, c) expenses are deducted from the fund according to expense scales in the service agreement, d) 15.81% withdrawal rate at age 20 graded down to 0% at age 55, e) normal retirement age of 59 upon completion of 10 years of service, f) asset values used are the actuarial adjusted values and g) projected salary increases are based on Table S-5 from the Actuary's Pension Handbook plus 3.00%.

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 - RETIRED BENEFIT PENSION PLAN COVERING ADMINISTRATIVE
EMPLOYEES (Concluded)**

d. Trend Information

Year ending December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2001	\$ 329,624	100%	\$
2002	389,922	100%	
2003	417,721	100%	

Required supplementary information is disclosed on pages 22 and 23.

e. Plan Membership

As of January 1, 2004 and 2003, the plan membership consisted of:

	2004	2003
Active employees	45	45
Retirees and beneficiaries current receiving benefits		
Terminated employees entitled to benefits but not yet receiving them	14	12
Total	59	57

f. Investments that represent 5% or more of net assets available for benefits:

Principal Financial Group	\$ 8,104,150
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CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Notes 10 and 11, the Authority provides post retirement health care and life insurance benefits to all employees who retire from the Authority after obtaining age 59. Benefits covered 52 retirees and 35 beneficiaries at September 30, 2004 and 46 retirees and 33 beneficiaries at September 30, 2003. The Authority will pay a \$10,000 life insurance benefit for all retirees who retired after December 1, 1986 and \$15,000 for all administrative retirees after January 1, 1996. The Authority provides health care coverage for all eligible retirees from ages 59 to 65. Beyond age 65, medical coverage is provided in the form of a Medicare complementary coverage. During 2004 and 2003 the Authority incurred \$20,771 and \$17,110 of expense for post-retirement life insurance coverage and \$198,299 and \$275,905 of expense for post-retirement health care coverage. These benefits are financed on a pay-as-you-go basis. New accounting rules are effective for periods beginning after December 15, 2007. The effect of these new rules has not been determined.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Bus tires are to be furnished to the Authority under the terms of a supplier agreement effective July 1, 2003, which expires June 30, 2008 and is renewable on a year to year basis. Payments for the use of the tires are to be made monthly and are based on the number of miles run. Bus tire expense for the year ended September 30, 2004 and 2003 was \$91,031 and \$63,272.

Also, in the normal course of business, the Authority is a party to various legal proceedings and actions. Although the ultimate resolution of these matters cannot be readily determined, in the opinion of management, any unrecognized liability would not materially affect the financial position of the Authority.

NOTE 14 - ADVERTISING

Advertising costs are charged to operations as incurred. Advertising expense for 2004 and 2003 was \$351,684 and \$292,705.

**CAPITAL AREA TRANSPORTATION AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION PLAN FUNDING PROGRESS
FOR THE UNION EMPLOYEES RETIREMENT PLAN**

The six year historical information required to be disclosed is as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets ¹	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL as a % of Payroll [(2) - (1)] / (5)
1999	\$ 4,335,547	\$ 7,450,059	\$ 3,114,512	58.19%	\$ 6,825,000	45.60%
2000	4,523,872	7,759,514	3,235,642	58.30%	7,820,000	41.38%
2001	3,827,273	7,112,431	3,285,158	53.81%	9,160,000	35.86%
2002	4,983,351	7,881,876	2,898,525	63.23%	9,740,000	29.76%
2003	5,622,377	8,229,826	2,607,449	68.32%	10,300,000	25.32%
2004	6,950,751	10,478,614	3,527,863	66.33%	12,000,000	29.40%

1. Actuarial Value of Assets excludes the amount set aside for the retired lives guaranteed in the "floor" option of the IPG contract.

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION PLAN FUNDING PROGRESS
FOR THE UNION EMPLOYEES RETIREMENT PLAN**

- A) The Actuarial Accrued Liability was determined as part of an actuarial valuation at January 1, 2004, the most recently filed actuarial valuation report.
- B) The report was based upon the plan's actuarial assumptions described in Note 9. The asset valuation method was the contract basis. The actuarial cost method was entry age normal-frozen initial liability.
- C) The amortization method used in level dollar over a closed period. The weighted average remaining period is seventeen years.

**CAPITAL AREA TRANSPORTATION AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION PLAN FUNDING PROGRESS
FOR THE ADMINISTRATIVE EMPLOYEES**

The six year historical information required to be disclosed is as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL as a % of Payroll [(2) - (1)]/(5)
1999	\$ 3,654,029	\$ 4,149,657	\$ 495,628	88.06%	\$ 1,418,261	34.95%
2000	4,051,297	4,537,818	486,521	89.30%	1,699,739	29.60%
2001	4,283,955	4,760,717	476,762	90.00%	1,656,500	28.80%
2002	5,425,247	6,268,202	842,955	86.55%	1,910,099	40.92%
2003	6,330,615	7,155,752	825,137	88.47%	2,200,000	37.51%
2004	6,968,603	8,068,629	1,100,026	86.37%	1,600,000	68.75%

- 1) Actuarial Value of Assets excludes the amount set aside for the retired lives guaranteed in the "floor" option of the IPG contract.

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION PLAN FUNDING PROGRESS
FOR THE ADMINISTRATIVE EMPLOYEES**

- A. The Actuarial Accrued Liability was determined as part of an actuarial valuation at January 1, 2004, the most recently filed actuarial valuation report.
- B. The report was based upon the plan's actuarial assumptions described in Note 10. The asset valuation method was the contract basis. The actuarial cost method was entry age normal-frozen initial liability.
- C. The amortization method used in level dollar over a closed period. The weighted average remaining period is twenty years.

CAPITAL AREA TRANSPORTATION AUTHORITY
OPERATING EXPENSES

	Year ended September 30, 2004				Year ended September 30, 2003			
	Operations	Maintenance	Administration	Total system	Operations	Maintenance	Administration	Total system
Labor:								
Operator salaries and wages	\$ 8,062,598	\$	\$	\$ 8,062,598	\$ 7,290,707	\$	\$	\$ 7,290,707
Other salaries and wages	1,375,133	1,569,413	985,049	3,929,595	1,138,519	1,475,229	1,059,914	3,673,662
Fringe benefits	5,620,601	1,075,829	710,958	7,407,388	4,999,922	981,222	586,692	6,567,836
Services	112,278	289,044	941,140	1,342,462	78,419	283,402	855,870	1,217,691
Materials and supplies consumed:								
Fuel and lubricants	1,096,815	32,309		1,129,124	1,053,025	27,899		1,080,924
Tires and tubes	89,716	1,315		91,031	61,430	1,842		63,272
Other materials and supplies	23,923	738,968	295,202	1,058,093	37,269	720,226	298,270	1,055,765
Utilities	7,669	5,024	349,717	362,410	7,083	6,644	307,784	321,511
Casualty and liability costs:								
Premiums for public liability and property damage insurance			1,429,215	1,429,215			1,613,893	1,613,893
Other casualty and liability costs		150,990		150,990		160,962		160,962
Purchased transportation services	2,883,482			2,883,482	3,243,176			3,243,176
Miscellaneous expenses:								
Advertising			351,684	351,684			292,705	292,705
Other miscellaneous expenses	38,645	8,727	164,137	211,509	34,128	19,073	163,527	216,728
Interest			487,130	487,130			544,833	544,833
Leases and rentals	3,300	3,881	17,227	24,408	3,312	3,618	3,322	10,252
Depreciation	2,898,597	233,786	892,551	4,024,934	2,564,684	209,016	861,243	3,634,943
Total operating expenses	<u>\$ 22,212,757</u>	<u>\$ 4,109,286</u>	<u>\$ 6,624,010</u>	<u>\$ 32,946,053</u>	<u>\$ 20,511,674</u>	<u>\$ 3,889,133</u>	<u>\$ 6,588,053</u>	<u>\$ 30,988,860</u>

CAPITAL AREA TRANSPORTATION AUTHORITY
NON-OPERATING REVENUES
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004	2003
LOCAL NON-OPERATING REVENUES:		
Property tax levy	\$ 10,837,462	\$ 10,516,108
Single business tax inventory reimbursement	109,970	110,079
Ingham County - county wide service	2,450,000	2,321,648
Property management fees	199,000	199,000
Reimbursement		36,920
Insurance participation fees	82,365	78,462
Gain on sale of assets	24,301	10,257
	<hr/>	<hr/>
Total local non-operating revenues	13,703,098	13,272,474
	<hr/>	<hr/>
STATE OF MICHIGAN OPERATING GRANTS:		
Operating grant (Act 51) 1994 (urban)	9,215,255	8,927,349
Operating grant (Act 51) 1994 (rural)	452,148	388,467
Operating grants - other	56,237	435,250
Preventive maintenance	106,731	106,731
Section 9 planning	19,477	12,254
Local ride share program (state portion)	24,046	24,323
Operating portion of capital grants	16,122	11,641
Specialized services assistance	76,080	76,080
Clinton county service		36,677
Ingham county service	18,120	239,024
Other state revenue	130,021	101,453
State grant adjustments	(49,104)	(14,519)
Busway study		8,396
	<hr/>	<hr/>
Total State of Michigan operating grants	10,065,133	10,353,126
	<hr/>	<hr/>
FEDERAL OPERATING GRANTS:		
U.S. Department of Transportation, operating grant - Section 5311	106,753	97,092
Preventive maintenance - section 5307	426,924	426,924
Adjustments on closed projects	2,047	(1,017)
Local ride share (federal portion)	21,931	22,989
Operating portion of capital grants - section 5307	64,489	46,564
Section 9 planning	155,818	98,036
Busway Study		67,167
Other federal revenue	520,086	405,812
	<hr/>	<hr/>
Total federal operating grants	1,298,048	1,163,567
	<hr/>	<hr/>
INTEREST INCOME	69,330	39,676
	<hr/>	<hr/>
TOTAL NON-OPERATING REVENUES	<u><u>\$ 25,135,609</u></u>	<u><u>\$ 24,828,843</u></u>

CAPITAL AREA TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2004

	Delta late night	Specialized service assistance	Ride share assistance	Section 9 Planning	Transit Needs Study	Technology Program	Project Zero	Capital grant administration	Operations	Link Link II	Total
Salaries	\$ 52	\$	\$ 24,884	\$ 109,009	\$	\$	\$ 8,267	\$	\$ 11,828,553	\$ 21,428	\$ 11,992,193
Fringe benefits	31		14,864	65,101			5,317		7,308,838	13,237	7,407,388
Advertising	3		848				355		349,894	584	351,684
Professional and technical services	14			20,662	71,962	97,825	1,636		1,148,167	2,196	1,342,462
Materials and supplies	4		21				985	622,190	1,650,624	4,424	2,278,248
Depreciation expense							47		4,024,709	178	4,024,934
Interest								480,320	5,736	1,074	487,130
Casualty and liability costs	19						1,359		1,576,129	2,698	1,580,205
Purchased transportation	530	173,938					7,005		2,702,009		2,883,482
Utilities	4		495				499		360,830	582	362,410
Leases and rentals							46		24,327	35	24,408
All other expenses	2		4,864				200		206,090	353	211,509
Total	\$ 659	\$ 173,938	\$ 45,976	\$ 194,772	\$ 71,962	\$ 97,825	\$ 25,716	\$ 1,102,510	\$ 31,185,906	\$ 46,789	\$ 32,946,053

CAPITAL AREA TRANSPORTATION AUTHORITY
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004		2003	
Section 5307 and Act 51 (Urban)	Federal operating assistance	State operating assistance	Federal operating assistance	State operating assistance
GENERAL OPERATING EXPENSES	\$ 31,185,906	\$ 31,185,906	\$ 28,212,537	\$ 28,212,537
LESS INELIGIBLE EXPENSES:				
Miscellaneous	19,696	19,696	25,146	25,146
Depreciation	3,922,393	3,922,393	2,913,046	2,913,046
Section 18 operating expenses	1,070,512	1,070,512	887,009	887,009
	5,012,601	5,012,601	3,825,201	3,825,201
NET ELIGIBLE EXPENSES	26,173,305	\$ 26,173,305	24,387,336	\$ 24,387,336
LESS PROJECT REVENUE				
Farebox	3,483,693		3,594,200	
NET DEFICIT FEDERAL	\$ 22,689,612		\$ 20,793,136	
MAXIMUM FEDERAL REIMBURSEMENT (50%)	\$ 11,344,806		\$ 10,396,568	
MAXIMUM STATE REIMBURSEMENT				
Statutory Cap:				
A. 2004 = 50% Actual		\$ 13,086,653		
2003 = 50% Actual				\$ 12,193,668

CAPITAL AREA TRANSPORTATION AUTHORITY
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004		2003	
Section 5311 and Act 51 (Rural)	Federal operating assistance	State operating assistance	Federal operating assistance	State operating assistance
GENERAL OPERATING EXPENSE (NET ELIGIBLE)	<u>\$ 1,070,512</u>	<u>\$ 1,070,512</u>	<u>\$ 887,009</u>	<u>\$ 887,009</u>
LESS INELIGIBLE EXPENSES Clinton county expenses				
NET ELIGIBLE EXPENSES	1,070,512	<u>\$ 1,070,512</u>	887,009	<u>\$ 887,009</u>
LESS PROJECT REVENUE - Farebox	<u>61,329</u>		<u>76,333</u>	
NET DEFICIT FEDERAL	<u>\$ 1,009,183</u>		<u>\$ 810,676</u>	
MAXIMUM FEDERAL REIMBURSEMENT (60%)	<u>\$ 605,510</u>		<u>\$ 486,406</u>	
MAXIMUM STATE REIMBURSEMENT:				
Statutory Cap:				
2004 = 60% Actual		<u>\$ 642,307</u>		
2003 = 60% Actual				<u>\$ 532,205</u>
Federal funding - percentage for fiscal year ending September 30:				
2004 = 10.95%	<u>\$ 117,221</u>			
2003 = 10.95%			<u>\$ 97,127</u>	

**CAPITAL AREA TRANSPORTATION AUTHORITY
DETAIL OF ELIGIBLE AND INELIGIBLE ITEMS
YEAR ENDED SEPTEMBER 30, 2004**

MISCELLANEOUS

The amounts disallowed for both Federal Section 5307 and State Operating Assistance Act 51 (urban) represents the ineligible percentage of the annual dues paid to the Michigan Public Transit Association and the American Public Transit Association and Lobbying expenses.

DEPRECIATION

Depreciation incurred by public operators on property and equipment purchased with federal and state monies is ineligible.

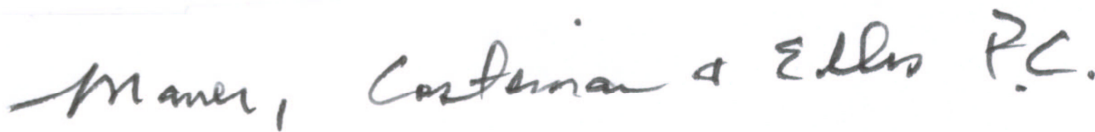
CATA RURAL SERVICE

CATA Rural Service is funded under Federal Section 5311 and State Operating Assistance (Act 51) rural. Therefore expenses incurred by CATA Rural Service are not eligible for Federal Section 5307 or State Operating Assistance (Act 51) urban funding.

COMPLIANCE INFORMATION

As required by the State of Michigan, a schedule of mileage data and a schedule of vehicle hours and passengers for the years ended September 30, 2004 and 2003 follow on pages 31 and 32.

This information is presented for supplementary analysis purposes and has not been subject to audit procedures applied in connection with our audits of the financial statements and we do not express an opinion or any other form of assurance on such data.

A handwritten signature in dark ink that reads "Maher, Costantino & Ellis P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

Lansing, Michigan
December 22, 2004

**CAPITAL AREA TRANSPORTATION AUTHORITY
MILEAGE DATA**

	<u>Year ended September 30, 2004</u>		<u>Year ended September 30, 2003</u>		
	<u>Public transportation mileage</u>	<u>Purchased transportation mileage</u>	<u>Public transportation mileage</u>	<u>Charter bus mileage</u>	<u>Purchased transportation mileage</u>
LINEHAUL:					
1st quarter	859,042		851,325	49	
2nd quarter	838,953		835,702		
3rd quarter	750,066		732,814		
4th quarter	<u>776,091</u>		<u>766,067</u>		
TOTAL LINEHAUL	<u>3,224,152</u>		<u>3,185,908</u>	<u>49</u>	
DEMAND - RESPONSE:					
1st quarter	159,796	470,239	125,978		524,705
2nd quarter	162,028	497,589	123,746		560,032
3rd quarter	175,067	489,626	146,044		504,616
4th quarter	<u>174,992</u>	<u>483,972</u>	<u>152,489</u>		<u>482,910</u>
TOTAL DEMAND - RESPONSE	<u>671,883</u>	<u>1,941,426</u>	<u>548,257</u>		<u>2,072,263</u>
TOTAL OPERATION	<u><u>3,896,035</u></u>	<u><u>1,941,426</u></u>	<u><u>3,734,165</u></u>	<u><u>49</u></u>	<u><u>2,072,263</u></u>

**CAPITAL AREA TRANSPORTATION AUTHORITY
VEHICLE HOURS AND PASSENGERS**

	Year ended September 30, 2004				Year ended September 30, 2003			
	Vehicle hours	Regular passengers	Senior passengers	Handicapper passengers	Vehicle hours	Regular passengers	Senior passengers	Handicapper passengers
LINEHAUL:								
1st quarter	64,990	2,098,062	91,695	80,041	63,023	2,151,845	80,206	70,012
2nd quarter	64,465	2,445,788	88,948	77,642	63,135	2,570,887	65,334	57,030
3rd quarter	54,569	1,470,475	97,322	84,953	53,124	1,489,048	47,881	41,796
4th quarter	53,343	1,564,315	95,561	83,412	56,363	1,528,651	93,969	82,022
TOTAL LINEHAUL	237,367	7,578,640	373,526	326,048	235,645	7,740,431	287,390	250,860
DEMAND - RESPONSE:								
Regular:								
1st quarter	14,325	7,873	4,084	13,736	11,086	4,457	3,819	10,438
2nd quarter	14,730	8,190	3,913	14,583	12,507	5,135	3,420	10,624
3rd quarter	15,650	5,991	4,732	15,960	12,950	3,130	4,927	13,059
4th quarter	15,774	4,851	5,345	15,285	13,870	4,105	4,839	13,772
Total regular	60,479	26,905	18,074	59,564	50,413	16,827	17,005	47,893
Purchased transportation:								
1st quarter	28,605	11,072	20,209	44,465	33,234	20,286	22,960	45,891
2nd quarter	30,506	12,280	20,631	48,579	34,361	20,562	23,320	51,121
3rd quarter	29,310	9,792	20,246	45,787	32,025	18,128	20,691	45,807
4th quarter	29,202	9,609	19,535	43,360	31,143	13,719	19,420	44,100
Total purchased transportation	117,623	42,753	80,621	182,191	130,763	72,695	86,391	186,919
TOTAL DEMAND - RESPONSE	178,102	69,658	98,695	241,755	181,176	89,522	103,396	234,812
TOTAL OPERATION	415,469	7,648,298	472,221	567,803	416,821	7,829,953	390,786	485,672

The above figures include demonstration projects.



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Floyd L. Costerisan
Leon A. Ellis (1933-1988)

December 22, 2004

To the Board of Directors
Capital Area Transportation Authority
Lansing, Michigan

In planning and performing our audit of the financial statements of Capital Area Transportation Authority for the year ended September 30, 2004, we considered the Company's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated December 22, 2004, on the financial statements of Capital Area Transportation Authority.

Develop Written Disaster Recovery Procedures

Currently, the Authority does not have well defined, written disaster recovery procedures. We are aware that a disaster recovery plan is in the process of being designed and implemented. We commend the Authority for its efforts as we agree that the time to make contingency plans is before disaster strikes, so that all personnel may be aware of their responsibilities in the event of an emergency situation. We recommend that management's disaster recovery plan include, but not be limited to, the following matters:

- Location of, and access to, off-site storage.
- A listing of all data files that would have to be obtained from the off-site storage location.
- Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
- Responsibilities of various personnel in an emergency.
- Priority of critical applications and reporting requirements during the emergency period.

Wire Transfers

Currently there are procedures in place to review the wire transfers after the bank statement is received at month end. We believe controls could be strengthened if wires were reviewed prior to the transfer. A system of authorization procedures required before the bank permits the transfer (potentially a facsimile of an authorized signature) would help to prevent unauthorized movement of funds.

Government Accounting Standards Board (GASB) Statement #40 “Deposit and Investment Risk Disclosures”

Effective June 30, 2005, governmental entities will be required to expand their current disclosure requirements addressing common risks of the deposits and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk. If the entity has adopted no policy with respect to a particular risk, that fact should be part of the disclosure.

The Authority should review its investment policies to determine all common risks areas are identified and the appropriate level of risk of each area is quantified.

Government Accounting Standards Board (GASB) Statement #45 "Accounting and Financial Reporting by employers for Postemployment Benefit Plans Other Than Pension Plans"

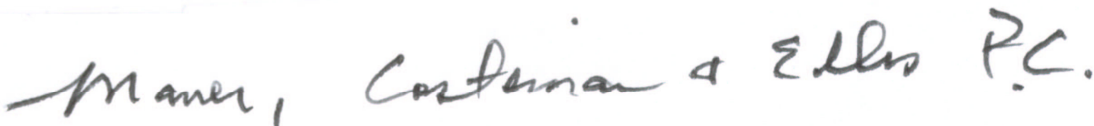
Capital Area Transportation Authority will be required to accrue liabilities for other postemployment benefits (health) generally over the working career of plan members. Previously these liabilities were accounted for on a pay-as-you-go basis. This will require actuarial computations similar to those currently obtained for retirement plans. We recommend the Authority plan for these requirement changes in advance in order to make the transition most efficient.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Company personnel, and we will be pleased to discuss them in further detail at your convenience.

This report is intended solely for the information and use of Capital Area Transportation Authority's management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

A handwritten signature in black ink that reads "Maner, Costanza & Ellis P.C." The signature is written in a cursive, flowing style.



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December 22, 2004

To the Board of Directors
Capital Area Transportation Authority
Lansing, Michigan

We have audited the financial statements of Capital Area Transportation Authority for the year ended September 30, 2004, and have issued our report thereon dated December 22, 2004. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated November 8, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Capital Area Transportation Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Capital Area Transportation Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2004. We noted no transactions entered into by Capital Area Transportation Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the insurance claims payable is based on the amount reported for the two months immediately following year-end. We evaluated the key factors and assumptions used to develop the insurance claims payable in determining that it is reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Capital Area Transportation Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Capital Area Transportation Authority's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Capital Area Transportation Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Directors
Capital Area Transportation Authority
Lansing, Michigan

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December 22, 2004

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors and management of Capital Area Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Manner, Costanza & Ellis P.C.

CAPITAL AREA TRANSPORTATION AUTHORITY

ADDITIONAL REPORTS REQUIRED BY

OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2004

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Capital Area Transportation Authority
Lansing, Michigan

December 22, 2004

We have audited the financial statements of Capital Area Transportation Authority as of and for the year ended September 30, 2004, and have issued our report thereon dated December 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Capital Area Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Capital Area Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to the management of the Capital Area Transportation Authority, in a separate letter dated December 22, 2004.

This report is intended solely for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan & Ellis P.C.



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors
Capital Area Transportation Authority
Lansing, Michigan

December 22, 2004

Compliance

We have audited the compliance of Capital Area Transportation Authority with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. Capital Area Transportation Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Capital Area Transportation Authority's management. Our responsibility is to express an opinion on Capital Area Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Capital Area Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Capital Area Transportation Authority's compliance with those requirements.

In our opinion, Capital Area Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

December 22, 2004

Internal Control Over Compliance

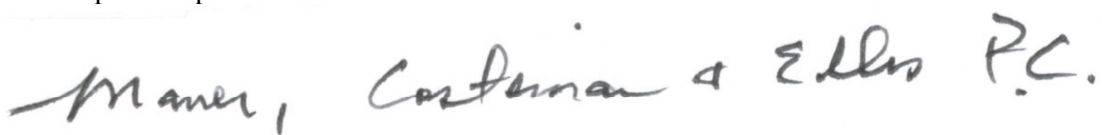
The management of Capital Area Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Capital Area Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business type activities of Capital Area Transportation Authority as of and for the year ended September 30, 2004, and have issued our report thereon dated December 22, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Capital Area Transportation Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

CAPITAL AREA TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL AND STATE
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal grantor number	State grantor number	Program or award amount	Federal receipts	State receipts	Expenditures	Amount remaining Sept. 30, 2004
U.S. Department of Transportation:								
Direct assistance:								
UMTA Capital Assistance	20.500	MI-90-0310		\$ 3,328,213	\$ 257,067	\$	\$ 209,115	\$
UMTA Capital Assistance	20.500	MI-03-0183		2,220,000	26,382		22,250	
UMTA Capital Assistance	20.500	MI-03-0191		991,244	965,335		965,335	
					<u>1,248,784</u>		<u>1,196,700</u>	
UMTA Capital Assistance	20.507	MI-90-0269		2,892,368	78,560		17,032	17,032
UMTA Capital Assistance	20.507	MI-90-0332		2,584,924	9,265			
UMTA Capital Assistance	20.507	MI-90-0355		3,271,402	280,752		318,380	78,617
UMTA Capital Assistance	20.507	MI-90-X452		358,032			358,032	358,032
UMTA Capital Assistance	20.507	MI-90-0376		3,846,748	244,576		286,543	69,071
UMTA Capital Assistance	20.507	MI-90-X400		4,272,392	1,293,615		1,376,906	137,790
UMTA Capital Assistance	20.507	MI-03-X427		4,062,673	1,806,526		1,355,717	18,602
					<u>3,713,294</u>		<u>3,712,610</u>	<u>679,144</u>
Total Federal Transit Cluster - Capital Assistance					<u>4,962,078</u>		<u>4,909,310</u>	<u>679,144</u>
Passed through the Michigan Department of Transportation:								
Capital Assistance - Section 5311	20.515	MI-80-X012		95,667	62,929		76,553	13,624
Capital Assistance - Section 5311	20.515	MI-80-X010		60,000	39,885		57,570	17,684
					<u>102,814</u>		<u>134,123</u>	<u>31,308</u>
Total federal capital assistance					<u>5,064,892</u>		<u>5,043,433</u>	<u>710,452</u>
Michigan Department of Transportation:								
Direct assistance:								
MDOT Capital Assistance	N/A		2000-0451	249,626		6,761		
MDOT Capital Assistance	N/A		2001-0562	817,851		117,192	79,661	28,881
MDOT Capital Assistance	N/A		2001-0903	14,696				
MDOT Capital Assistance	N/A		02-0024-Z04	955,187		49,276	71,636	31,031
MDOT Capital Assistance	N/A		97-0028	723,592		19,640	4,258	4,258
MDOT Capital Assistance	N/A		99-0726	778,453		57,047	52,279	
MDOT Capital Assistance	N/A		02-0024-Z11	1,052,098		167,339	343,292	247,597

The accompanying notes are an integral part of this schedule.

**CAPITAL AREA TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL AND STATE
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal grantor number	State grantor number	Program or award amount	Federal receipts	State receipts	Expenditures	Amount remaining Sept. 30, 2004
Michigan Department of Transportation (concluded):								
Direct assistance (concluded):								
MDOT Capital Assistance	N/A		02-0024-Z09	\$ 546,500	\$	\$ 1,222	\$ 5,562	\$ 5,382
MDOT Capital Assistance	N/A		02-0024-Z17	1,031,668			354,117	443,625
MDOT Capital Assistance	N/A		02-0024-Z10	23,917		15,733	19,138	3,406
MDOT Capital Assistance	N/A		02-0024-Z03	15,000		9,974	14,392	4,418
MDOT Capital Assistance	N/A		02-0024-Z12	247,811		217,543	240,292	22,749
Total state capital assistance						661,727	1,184,627	791,347
Total capital assistance					5,064,892	661,727	6,228,060	1,501,799
U.S. Department of Transportation:								
Direct Assistance:								
Operating Assistance - Section 9 Planning	20.507	MI-90-2427		128,000	111,379		121,500	10,121
Operating Assistance - Section 9 Planning	20.507	MI-90-2400		128,000	34,318		34,318	
					145,697		155,818	10,121
Passed through the Michigan Department of Transportation:								
Operating Assistance - Section 18	20.509		02-0024-Z16	106,753	97,564		106,753	9,189
FHWA Rideshare	20.205		2004-0009	31,000	10,025		21,931	11,906
Total federal operating assistance					253,286		284,502	31,216

The accompanying notes are an integral part of this schedule.

**CAPITAL AREA TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL AND STATE
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal grantor number	State grantor number	Program or award amount	Federal receipts	State receipts	Expenditures	Amount remaining Sept. 30, 2004
Michigan Department of Transportation:								
Direct Assistance:								
Operating Assistance - Act 51 (urban)	N/A		9/30/2004		\$	\$ 9,112,600	\$ 9,215,255	\$ 102,655
Operating Assistance - Act 51 (rural)	N/A		9/30/2004			411,770	452,148	40,378
Operating Assistance - Act 51 (urban)	N/A		9/30/2003			283,424		481,000
Operating Assistance - Act 51 (rural)	N/A		9/30/2003			(48,417)		7,697
Operating Assistance - Section 9 Planning	N/A		02-0024-Z17				15,188	15,188
Operating Assistance - Section 9 Planning	N/A		02-0024-Z11			4,290	4,290	
FHWA Rideshare	N/A		2004-0009			11,004	24,046	13,042
FHWA Rideshare	N/A		2003-0031			11,993		
FHWA Rideshare	N/A		2002-0110			69		
Specialized services	N/A		02-0024-Z13			32,881	76,080	43,199
Specialized services	N/A		02-0024-Z07			36,002		
Project Zero-Clinton County	N/A		02-0024-Z14			13,587	18,120	4,533
Eaton County-Delta Late-Nite	N/A		99-0692			874		(10,090)
Total state operating assistance						9,870,077	9,805,127	697,602
Total operating assistance					253,286	9,870,077	10,089,629	728,818
Total capital and operating assistance					5,318,178	10,531,804	16,317,689	2,230,617
Total federal financial assistance					5,318,178		5,327,935	741,668
Total state financial assistance						10,531,804	10,989,754	1,488,949
Total financial assistance					\$ 5,318,178	\$ 10,531,804	\$ 16,317,689	\$ 2,230,617

The accompanying notes are an integral part of this schedule.

**CAPITAL AREA TRANSPORTATION AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL AND STATE
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

NOTES:

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Capital Area Transportation Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. Federal Transit Cluster Federal Transit – Capital Improvement Grants CFDA# 20.507 and Federal Transit – Formula Grants CFDA# 20.500 are the major programs.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Federal and State operating assistance expenditures are based on actual expenses incurred by CATA.
5. The Schedule of Expenditures of Federal Awards includes state funds in accordance with the Michigan Department of Transportation Audit Guide.
6. The total federal expenditures by CFDA # for the Federal Transit Cluster are as follows:

CFDA #	Program Title	Amount
20.507	Capital Assistance	\$ 3,712,610
20.507	Operating Assistance	<u>155,818</u>
	Total CFDA# 20.507	3,868,428
	CFDA# 20.500	<u>1,196,700</u>
		<u><u>\$ 5,065,128</u></u>

**CAPITAL AREA TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2004**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

· Material weakness(es) identified? Yes X No

· Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

· Material weakness(es) identified? Yes X No

· Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.507	Federal Transit Cluster - Capital Improvement Grants
20.500	Federal Transit Cluster - Formula Grants

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

Section II – Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**CAPITAL AREA TRANSPORTATION AUTHORITY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

No findings or questioned costs were noted for the September 30, 2003 audit.